

Horizon Bancorporation, Inc.

April 5, 2004

Jennifer J. Johnson, Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20051

Re: Docket No. R-1.18L – Proposed Revisions to the CRA Regulations

Via Fax: (202) 452-3819

~~Dear~~ Ms. Johnson:

I am writing to **support** the federal bank regulatory agencies' (Agencies) proposal to enlarge the number of banks and saving associations that will be examined under the small institution Community Reinvestment **Act** (CRA) examination. The Agencies propose to increase the asset threshold from \$250 million to \$500 million and to eliminate **any** consideration of whether the small institution is owned by a holding company. This proposal **is** clearly a major step towards **an** appropriate implementation of **the** Community Reinvestment **Act** and should greatly reduce regulatory burden on those institutions newly made eligible for the small institution examination, **and** I strongly support both **o** f them.

When the CRA regulations were rewritten in 1995, the banking industry recommended that: community **banks** of at least \$500 million be eligible for a less burdensome **small** institution examination. The most significant **improvement** in the new regulations was the addition **o** f that small institution CRA examination, which actually did what the **Act** required: had examiners, **during** their examination of the bank, **look** at the **bank's** **loans** **and** assess whether the bank **was** helping to meet the credit needs of the bank's entire community. It imposed **no** investment requirement on small banks, **since** the **Act** **is** about credit not investment. It added no data reporting requirements on small banks, fulfilling the promise of the **Act's** sponsor, Senator Proxmire, that there would be no additional paperwork or record keeping burden on banks if the **Act** **passed**. **And** it created a simple, understandable assessment test of the **bank's** record of providing credit in its

community: the test considers the institution's loan-to-deposit ratio; the percentage of loans in its assessment areas; its record of lending to borrowers of different income levels and businesses **and farms** of different sizes; the geographic distribution of its loans; **and** its record of taking action, if warranted, in response to written complaints **about** its performance in helping to meet credit needs in its assessment areas.

Since then, the regulatory burden on small **banks** has **only** grown larger, including massive new reporting requirements under **HMDA**, the USA Patriot Act and the privacy provisions of the Gramm-Leach-Bliley Act. But the nature **of** community banks has not changed. When a community bank must comply with the requirements of the large institution CRA examination, the costs to **and** burdens on that community bank increase dramatically. In looking at my bank, converting to the large institution examination requires, **among** other things, **an** additional full-time CRA officer as well **as** added staff time **in** my loan administration area. Personnel costs alone would increase **by** over \$100,000.00.

I believe that it is **as true** today as it **was** in 1995, **and** in 1977 when Congress enacted CRA, that **a** community bank meets the credit needs of its community if it makes a certain amount of loans relative to deposits taken. **A** community bank is typically non-complex; it takes deposits **and** makes **loans**. Its business activities **are** usually focused on small, defined geographic areas where the bank is known in the community. The small institution examination accurately captures the information necessary **for** examiners to assess whether a community bank is helping to meet the credit needs of its community, **and** nothing more is **required** to satisfy the Act.

As the Agencies state in their **proposal**, raising the small institution CRA examination threshold to \$500 makes numerically more **community** banks eligible. However, in reality raising the asset threshold to \$500 million and eliminating the holding company limitation would retain the percentage of industry **assets** subject to the large retail institution test. It would decline only slightly, from a little more than 90% to **a** little less than 90%. That decline, though slight, would more closely **align** the current distribution of assets between small **and** large banks with the distribution that **was** anticipated when the Agencies adopted the definition of "small institution." Thus, the Agencies, in revising **the** CRA regulation, are really just preserving the **status** quo of the regulation, which **has** been altered by **a** drastic decline in the number of banks, inflation and an enormous increase in the size of large banks. I believe that the Agencies need to provide greater relief to **community** banks **than** just preserve the status quo of **this** regulation.

While the small institution test was the most significant improvement of the revised CRA, it was wrong to limit its application to only banks below \$250 million in assets, depriving **many** community banks **from any** regulatory relief. Currently, a bank with more than \$250 million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits **as** contemplated by the Community Reinvestment Act. In today's banking market, even a \$500 million bank often has only **a** handful of branches. I recommend raising the asset threshold **for** the **small** institution examination to at least \$1 billion. Raising the limit to

\$1 billion is appropriate for two reasons. First, keeping the focus of small institutions on lending, which the small institution examination **does**, would be entirely consistent **with** the **purpose** of the Community Reinvestment Act, which is to ensure that the Agencies evaluate **how** banks help to meet the credit needs of the communities they serve.

Second, raising the limit to \$1 billion will have only a **small** effect on the amount of total **industry** assets covered under the more comprehensive large **bank** test. According to the Agencies' own findings, raising the limit from \$250 to \$500 million **would** reduce total industry assets covered by the large bank test by **less** than one percent. According to December 31, 2003, Call Report data, raising the limit to \$1 billion will reduce the amount of assets subject to the much more burdensome large institution test by only **4%** (to about **85%**). Yet, the additional relief provided **would**, again, be substantial, reducing the compliance burden on more than 500 additional banks, and **savings** associations (compared to a \$500 million limit). Accordingly, I urge the Agencies to raise the limit to at least \$1 billion, providing significant regulatory relief while, to quote the Agencies in the proposal, not diminishing "in any **way** the obligation of all insured depository institutions subject to CRA to help meet the credit needs of their communities. Instead, the changes are meant only to address the regulatory burden associated with evaluating institutions under CRA."

In conclusion, I **strongly support** increasing the asset-size of **banks** eligible for the small bank streamlined CRA examination process as a vitally important step **in** revising and improving the CRA regulations and in reducing regulatory burden. I also support eliminating the separate holding company qualification for the small institution examination, since it places small community **banks** that are **part** of a larger holding company at a disadvantage to their peers and has no legal basis in the Act. While community banks, of course, still will be examined under **CRA** for their record of helping to meet the credit needs of their communities, this change will eliminate some of the most problematic and burdensome elements of the current **CRA** regulation **from** community banks that are drowning in regulatory red-tape.

Sincerely,



Charles S. Conoley
President/CEO